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R 201250Z FEB 06
FM AMEMBASSY KABUL
TO RUEHC/SECSTATE WASHDC 8421
INFO RUCNAFG/AFGHANISTAN COLLECTIVE
RUEHNE/AMEMBASSY NEW DELHI 6794
RUEHIL/AMEMBASSY ISLAMABAD 2769
RUEKJCS/OSD WASHDC
RUEKJCS/JOINT STAFF WASHDC
RHMFISS/CDR USCENTCOM MACDILL AFB FL
RUCNDT/USMISSION USUN NEW YORK 2255
RUEHGV/USMISSION GENEVA 5564
RUEHUNV/USMISSION UNVIE VIENNA 1097
RUEATRS/DEPT OF TREASURY WASHDC
RHEHAAA/NSC WASHDC
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

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SIPDIS

DEPARTMENT FOR SA/FO, SA/A, EB
TREASURY FOR PARAMESWARAN
NSC FOR AHARRIMAN, KAMEND
CJTF-76 FOR POLAD, CENTCOM FOR CG CFC-A
COMMERCE FOR AADLER
USTDA FOR DSTEIN, SGREENIP

SENSITIVE
SIPDIS

E.O.12958: N/A

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SUBJECT: AFGHANISTAN INVESTMENT COMPANY CLOSING IN ON FIRST PROJECT

REF: KABUL 006232

¶1. (SBU) Summary: The Afghanistan Investment Company (AIC,) founded in October 2005 by 50 of Afghanistans and the Afghan Diasporas wealthiest businessmen, is closing in on its first venture: a Greenfield cement plant in Puli i Khumri, Baghlan province. According to Mahmood Karzai, the GOA Presidents older brother and lead negotiator for the AIC, discussions with the GOA on this project has been a nightmare, as procedures for investment in this sector (restricted by the Private Investment Law) are ill-defined. The AICs experience bodes poorly for other investors. End Summary.

¶2. (U) The AIC was founded in October 2005 by a group of businessmen from both Afghanistan and the Afghan Diaspora. The company, headquartered in Dubai, announced its formation and intent to invest in major infrastructure projects in Afghanistan during the U.S. Afghan Business Matchmaking Conference, organized by the Afghan American Chamber of Commerce (AACC) October 2-4 in Washington, D.C.

¶3. (SBU) Econoff recently met with Mahmood Karzai, brother of GOA President Hamid Karzai, owner of a string of Helmand restaurants in the U.S., Chairman of the AACC and one of the AICs founding members. Karzai reported that d that the AIC now has 50 members, each of whom has invested equal USD 500,000 shares in the company, bringing the total value of the fund to USD 25 million. While a complete list of the investors is not publicly available, Karzai stated that the group includes prominent businessmen such as Habib Gulzar, owner of the bottling facility licensed by Coca-Cola, Farid Maqsudi of the Afghanistan Reconstruction Company, Farnood Sherkhan of Kabul Bank and Rahim Safi of

Safi Industries. At least ten AIC investors are U.S. citizens.

¶4. (SBU) Karzai reported that the AICs first project will be a USD 250 million investment in a Greenfield cement plant at Puli Khumri in Baghlan province. (Note: Two moribund state-owned cement manufacturing plants are located at this site. End note.) The AIC has already formed and registered a local company called the Afghanistan Cement Company for the purposes of this project. A site has been identified which the AIC plans to lease from the GOA for a 49-year term. Negotiations on other aspects of the deal are still underway. The price at which the AIC will purchase raw materials from nearby state-owned limestone quarries is particularly contentious. The GOA has reportedly asked for USD 8 per metric ton of limestone. Karzai called this price crazy, claiming that Pakistani plants purchase limestone at just 5 rupees (approx. 8 US cents) per metric ton. Karzai stated that the AIC was attempting to negotiate contract language stating that the GOA will set prices for raw materials commensurate with those of neighboring countries.

¶5. (SBU) Karzai stated that the AIC has already found a potential financier for this project, the ExIm Bank of China. According to Karzai, China ExIm will finance up to 85 percent of the project if the Afghan Cement Company purchases Chinese equipment. However, the bank is seeking a GOA loan guarantee for the transaction. Karzai has been unsuccessful in convincing the GOA to provide such a guarantee. (Comment: We seriously doubt that one will be

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forthcoming as the GOA is constrained by its own zero overdraft budget policy and by IMF oversight. End comment.) The AIC is seeking additional investors for the remaining USD 37.5 million. According to Karzai, both the Asian Development Bank and the Afghan International Bank have expressed interest in supporting this project.

¶6. (U) The plant will be capable of producing three million metric tons of cement per year. According to Karzai, this is enough to satisfy all of domestic consumption. The AIC hopes to begin production in 2009. (Note: A USTDA-funded feasibility study conducted by Box International Consulting has found that a Greenfield plant in the Puli Khumri area would be competitive, but only for the North-Central Afghanistan market where imports from Iran, Pakistan and Turkmenistan incur higher transportation costs. End note.)

¶7. (U) Karzai clearly has great expectations for the AIC, making reference to possible plans for the company to go public in the future. He stated that the AIC is simultaneously pursuing a USD 8 million investment in a GOA owned coal mine, but was hesitant to discuss the details. A fertilizer plant project is also under consideration.

¶8. (SBU) COMMENT: While the formation of the AIC is a promising step for the development of private sector investment in Afghanistan, the process through which the company is negotiating its contract with and permits from the GoA is worrisome. Under the recently passed Private Investment Law (reftel), investment in sectors such as cement, coal and fertilizer are considered on a case-by-case basis by a sub-cabinet committee of economic ministers. Karzai has taken the lead in negotiating the AICs project and, while his status has undoubtedly proved useful in cutting a deal with the GOA, he characterized the process as a nightmare. The absence of clearly established procedures for obtaining approval for this type of investment has necessitated scores of signatures and meetings with recalcitrant GOA officials to convince them

of the merits of the project. While Karzai claims to have steered clear of corruption, other investors without his family connections would likely not be as successful. This bodes poorly for the future of private investment in sectors covered by these special procedures under the Private Investment Law. Post will press the GOA to establish clear rules of the game for investment in these sectors as soon as possible. End comment.

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